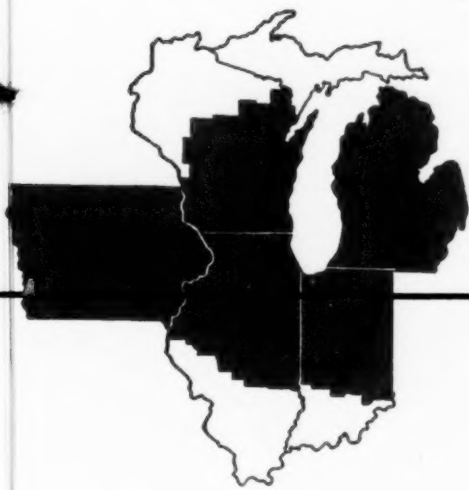
A review by the **Federal Reserve Bank of Chicago**

Business Conditions



1957 July

Contents

THE Trend OF BUSINESS

At midyear, most economic measures continued to indicate that business activity was holding about steady on a high plateau. Continued pressure on *consumer prices* is countered to some extent by signs of stability of nonfarm prices at the *wholesale* level. *Housing starts* rose in May, for the second successive month, reaching an annual rate of nearly one million, but they were still the lowest for that month in six years. *Automobile sales*, in units, have remained slightly below last year's level, which in turn was well under the record clip maintained the year before, but have topped year ago in dollar volume. Industrial *production*, reflecting in part the slackened pace of industrial equipment and steel output, has receded from its December high of 147 (1947-49=100). In both January and February the index read 146, and it slipped further in each of the three succeeding months, reaching a preliminary 143 for May. (Developments in the retail sales and business inventories sectors are described in articles in succeeding pages of this issue of *Business Conditions.*)

Business spending on plant and equipment remains a bright spot, showing a small rise to 36.9 billion dollars, yearly rate, in the first quarter. On the strength of businessmen's expectations, the second and third quarters apparently will turn up further small gains of about a half billion each, on an annual basis.

Foreign demand for domestic product has displayed considerable strength in the past several months. In March, merchandise exports reached an all-time high for any single month, 2.1 billion dollars. The sale overseas of increased quantities of surplus agricultural commodities and a stepped-up rate of export of domestic fuels, an aftermath of the Suez difficulties, largely account for the recent gains.

Public expenditure, an expansionary influence since mid-1955, lately has shown accelerating quarterly gains. Government purchases of goods and services in the first quarter were just under 85 billion dollars, at an annual rate — some 2.9 billion or 3½ per cent more than in the closing three months of 1956. At their current rate, government purchases account for just under one-fifth of total expenditures for goods and services by all sectors of the economy.

Growing Federal outlays for defense purposes, largely a response to the rise in prices paid for military hard goods, have boosted this category of public expenditure by about 10 per cent in a year. At the same time the nation's 100,000 state and local governments have continued to swell the volume of their spending — for new construction, conspicuously, and for current operating purposes as well.

Federal spending mirrors price trends

The budget for 1958 touched off about as lively a debate on Federal spending as has been heard in recent years. The outcome is still uncertain. Significantly, however, much of the controversy has raged about the Administration's proposals for spending *authority*. A sizable fraction of any year's actual outlay flows from authority to spend conferred in earlier years, and 1958 will be no exception. It is quite possible, as a result, that Federal expenditures next year will continue to advance even in the face of any cutbacks in new expenditure authorizations which the Congress may adopt. In the absence of actual cutbacks or elimination of programs, a further rise in Federal outlay would be indicated, if only because replacement costs are up for the things the Government uses. Furthermore, the size of Washington's "work-

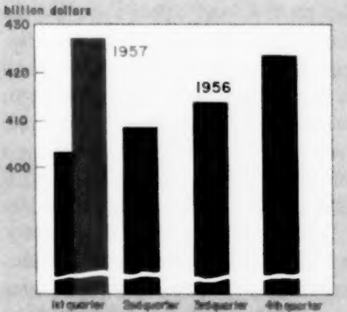
load" tends to grow apace with the population. These are strong forces tending to expand outlays, even with no extension of existing Federal programs and no addition of new ones.

The budget submitted last January anticipated spending of 71.8 billion dollars in fiscal 1958. (This figure is the total in the administrative budget; it excludes certain trust-fund disbursements to the public — social security benefits and payments under the new highway program are examples — and includes many other items, like interest on the Federal debt, which are excluded from "purchases of goods and services.") On May 23, the Joint Economic Committee released a staff estimate that budgetary expenditures in 1958 will run from 1 to 1½ billion dollars more than the budget estimates. Two days earlier, on May 21, the staff of the Joint Committee on Internal Revenue Taxation had issued a set of estimates which were in substantial agreement. Fiscal 1958 expenditures were forecast at 1.2 billion dollars more than the administration's estimate.

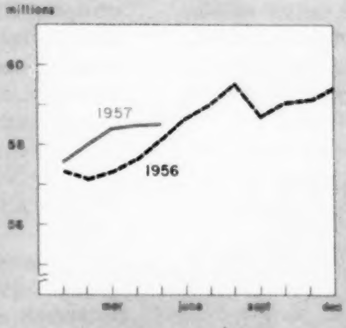
State-local outlays climbing

Expenditures of the state and local governments have been running lately at a pace three times as great as only 10 years ago. In the past year alone they have gained by a good 9 per cent. The first quarter of 1957 saw the total of state and local purchases increase some 1.3 billion dollars to an annual rate of 35 billion.

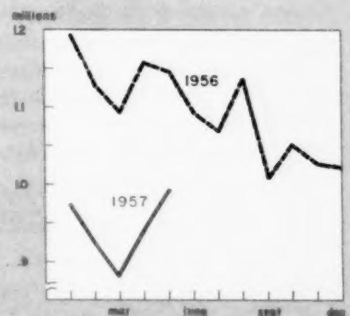
GNP



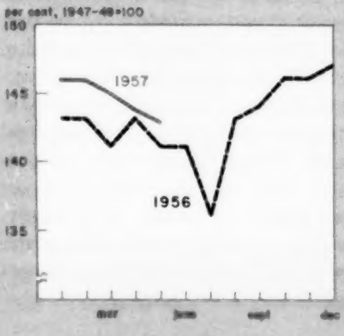
nonagricultural employment



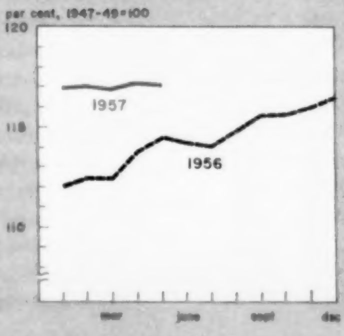
housing starts



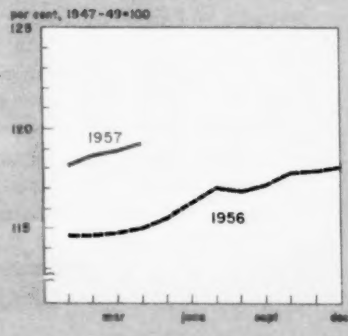
industrial production



wholesale prices



consumer prices

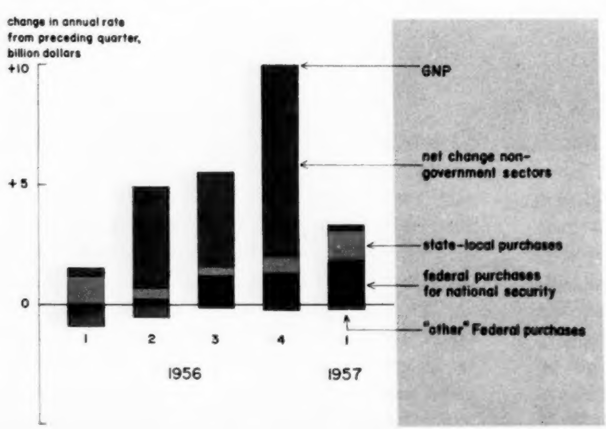


This amount exceeds total spending by businesses for production equipment or aggregate spending, including government's, for new construction.

Neither credit restraint nor mounting costs of construction have prevented the construction spending of the states and their subdivisions from reaching new highs. Outlays for new highways, schools and sewer and water plant in each of the first four months of 1957 were appreciably higher than in the corresponding periods of both 1956 and the year before.

The volume of municipal bond sales in the first half — 3.5 billion dollars against 3.1 and 2.8 billion in the same halves of 1956 and 1955 — suggests that coming months will see further growth in non-Federal public construction outlays. The sustained expansion of building activity by the municipal and state governments, notwithstanding the rise in construction and financing costs, points up again a feature of their capital planning which sets these units apart from business firms and private individuals. Seldom is the construction outlay of these governments programed in anticipation of the time it will be needed. Often as not, the stage of acute need has arrived before financing and building get under way.

Government purchases provide rising portion of national product gains in past year



Toward the end of 1957, it is now widely anticipated, the full effects of the new Federal-aid highway program will begin to be felt. Progress to date has been largely confined to planning, preparation of engineering specifications and right-of-way acquisition. Meantime, the falling-off in toll project activity — the Illinois program in the Chicago area being a leading exception — has produced something of a lull in highway construction activity. Once contract letting begins in earnest, a sharp increase in the tempo of highway construction can be expected to occur.

Transfer payments on the rise

Governments make their mark on the economy not only by buying goods and services, in the manner of businesses and households in the private sector, but by making cash disbursements which supplement or supplant people's incomes and thus may bolster private spending. These transfer payments include, among others, old age and survivors' benefits, unemployment compensation, general and special public assistance, veterans' benefits and employee retirement payments. Between the last quarter of 1956 and the first three months of this year, government transfer payments in the aggregate rose by 900 million dollars on an annual basis, to a record rate of 18.5 billion.

The seemingly unending suburbanization movement, the persistence of high birth rates, the even more widespread ownership and use of automobiles and steady ascension of personal income spell sustained demand on the states and localities for better and costlier services and facilities. Continued growth in outlays by these units thus is all but a foregone conclusion. Like personal spending on consumer durables in 1955 and business expenditures on new plant and equipment last year, public outlay may well occupy the center of attention as the major expansionary force during 1957.

Inventories a key factor again

Contrasting views as to the direction of business activity during the second half of 1957 depend, in large measure, upon conflicting interpretations of the inventory adjustment which has been under way since the start of the year. Will business firms generally be content with a cessation of the build-up, or will there be a substantial cutback in holdings which could undermine the rise in spending power? On the other hand, will final demand continue to grow and set the stage for a renewed build-up in working stocks?

Book value vs. real changes

Part of the confusion springs from varied interpretations of available statistics. Book values of total business inventories, the amounts shown on balance sheets, continued to *increase* through April. For the January-April period the rise, seasonally adjusted, amounted to 0.7 billion dollars. But this increase was a price phenomenon. During the same months, it is estimated that investment in inventories, the physical change in stocks valued at the average prices during the period, *declined* by about 1 billion dollars. This development reversed a two-year upswing.

Despite a leveling noted in over-all wholesale prices since January, these prices did average about 1 per cent higher than during the fourth quarter of 1956. Morever, uptrends were strongest in the categories of finished goods and goods in process in manufacturing, where virtually all of the book value rise occurred.

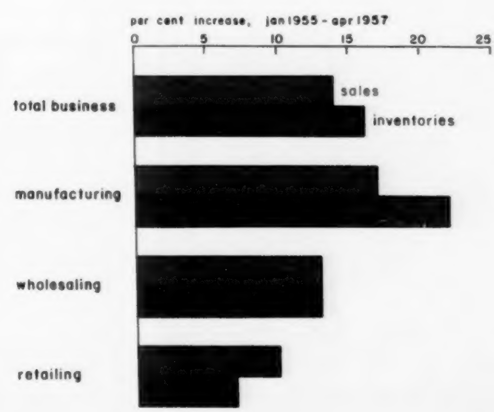
The price effect upon book value inventory figures is moderated to the extent that business firms use a last-in-first-out (LIFO) basis of inventory accounting. LIFO-using firms charge purchased materials to sales at current prices, regardless of the price at which the items were originally acquired. However, it is unlikely that more than 20 per cent of all business inventories are valued on this basis. For most, therefore, higher prices are fully reflected in asset totals as stocks are turned over. This process may take several months, particularly if procurement policies caused stocks to be built up before price increases occurred.

Reasons for cutting back

In certain lines inventories of finished goods had been increased toward the end of last year in anticipation of a higher-than-realized level of sales. This was certainly true in the case of household appliances and television. The pile-up occurred mainly at the manufacturing level as dealers' orders were scaled to their current sales trends. As a result, production of these items was reduced sharply in the early months of 1957 — 10 to 20 per cent below the comparable period of 1956. Sales of household appliance dealers, meanwhile, were running close to the levels prevailing a year earlier. Recently, one large appliance maker reported that inventories were now in "excellent shape."

There are other manufacturing industries in which sales failed to measure up to expectations

Manufacturers' inventory growth exceeds sales gain



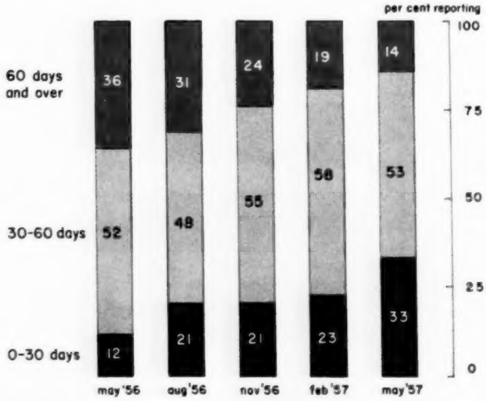
with the result that inventory reductions were indicated. Auto producers have sold excess holdings of sheet steel, which deteriorates if held for long periods. Another example is found in the case of road-building machinery firms which have indicated that inventories of certain stock items such as crawler tractors have been at levels necessitating production cutbacks.

But, for the most part, the desire to cut stocks, evident from pronouncements of purchasing agents during recent months, has been the result of two factors not directly related to current demand: (1) the attempt to improve liquidity positions in the face of continued heavy cash requirements and (2) an ability to reduce holdings because of the quick deliveries possible for virtually all types of supplies.

The long list of widely used materials in tight supply a year or so ago has dwindled to a few items such as heavy steel pipe, plates and structural shapes. (Even in this sector strides are being made in wiping out deficits as additional manufacturing capacity is added.) As a result, the period for which purchasing agents must order ahead to insure delivery as needed has shortened steadily (see chart).

Even if financing is not a problem, it is desirable to reduce stocks whenever possible without interfering seriously with operating efficiency or deliveries to customers. Experts estimate the carrying cost of inventory at 10-15 per cent annually, including interest, rent, taxes, insurance and other services. On items where carrying costs are not so great or where price advances are expected (as in the case of materials stored outside), business managers may take a highly ample inventory in stride in the spirit that "we may make money on it."

Growing proportion of purchasing agents report shorter lead time on new orders



SOURCE: Purchasing Agents of Chicago.

Producers shoulder the burden

The broad rise in business inventories began at the start of 1955, following a pickup in sales from their slow period in 1954. The accompanying chart indicates what has happened since, using book value figures as a measure of inventories.

It is apparent that, since the start of the inventory rise, stocks have risen somewhat more steeply than sales in manufacturing and wholesaling but less rapidly in retailing. The comparison is even more striking in the past year. In April total retail sales were 6 per cent higher than a year earlier, on a seasonally adjusted basis, but inventories were slightly *lower*.

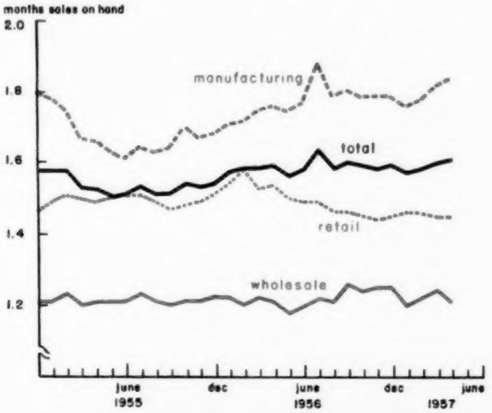
For all business, inventory-sales ratios are only slightly higher than a year ago or two and one-half years ago. Also, it is noteworthy that this ratio is substantially lower than it was during much of 1953 and 1954.

It is often said that inventories do not appear high relative to sales until sales begin to drop off. But the reverse is also true. Inventories appear adequate until sales begin to pick up sharply.

In the past year, manufacturers' inventories have risen at all stages — raw materials, goods in process and finished goods. But, from April to April, 2.0 billion of the 4.4 billion total rise was in finished goods, 1.7 billion in goods in process and 0.7 billion in raw materials. Since November raw material inventories have not increased at all.

There are good reasons for this development. Reductions of manufacturers' stocks can be effected most readily at the start of the produc-

Inventories rise relative to sales of manufacturers; fall at retail



tion process. Finished goods are not disposed of at a sacrifice short of a distress situation, and goods in process usually must move along the lines to completion to be worth more than scrap value. The cutbacks in raw material buying have been responsible for the price weakness which has developed in the market for nonferrous metals. Copper began falling last summer, tin was affected soon thereafter and, most recently, zinc and lead have given ground.

A larger than usual finished goods inventory in manufacturing does not automatically flash a signal for cutting back production. Producers must compete for wholesale and retail business on a fast delivery basis. Hand-to-mouth buying is a profitable operation for retailers as long as sales are not injured unduly as a result. Under the circumstances prevailing in recent months, merchants have had the advantage over their suppliers.

Retail sales in the aggregate have been on a plateau for six months despite continually rising personal income. Any significant pickup in retail buying could soon cause inventory positions, which have been the lowest in seven years relative to sales, to appear inadequate. Should such a development occur, a shift of inventories toward the retail counter could result.

Final buying continues to rise

Virtually all of the gross national product represents final purchases of goods and services by consumers, businesses and governments and net investment overseas. But everything produced during a period of time in excess of final buying must end up somewhere. This "somewhere" is found in the inventory investment category. When final buying exceeds current output, inventory investment will be negative, that is, inventories are being liquidated.

Prior to the first quarter of 1957, inventory investment had changed from positive to negative in the fourth quarter of 1953. But at that time inventory liquidation was dictated by a decline in final sales. In the recent instance, final buying did *not* decline. In fact, it rose at a somewhat faster rate than in the previous period as shown in the accompanying table.

When inventory investment is subtracted from GNP to obtain purchases for use, it is apparent that quarter-to-quarter increments in final buying have grown steadily larger since the end of 1955. It is unlikely that this sequence of increasing gains continued on into the second quarter of 1957. But, obviously, a voluntary resumption of buying for inventory would have a significant bolstering effect upon activity.

In the fourth quarter, the inventory build-up

Slower growth in national output traceable to inventory liquidation

	Quarter	GNP	Change	Inventory change	Final buying	Change
				(billion dollars)		
1955	IV	401.9	+5.1	+6.1	395.8	+2.7
1956	I	403.4	+1.5	+4.1	399.3	+3.5
1956	II	408.3	+4.9	+3.5	404.8	+5.5
1956	III	413.8	+5.5	+2.0	411.8	+7.0
1956	IV	423.8	+10.0	+4.1	419.7	+7.9
1957	I	427.1	+3.3	−1.2	428.3	+8.6

contributed 4 billion dollars to the gross national product. In the first quarter of this year, inventory liquidation *subtracted* 1 billion dollars. The net difference between the two periods, therefore, was 5 billion dollars. This change had approximately the same impact upon activity as a reduction of purchases in any other sector by a like amount.

The shock of this change in inventory investment was about the same as that realized between the third and fourth quarters of 1953 when a 1 billion dollar increment gave way to a 5 billion dollar liquidation, thereby contributing substantially to the 1953-54 recession pressures. But in the fall of 1953, Federal spending was being reduced sharply, personal income was declining and corporate profits were falling. None of these conditions apply today. Government spending is rising, personal income has continued to gain and corporate profits have been maintained.

Inventories and economic expansion

The adjustment in business inventories has helped to moderate the rising pressure in the economic boiler. Order backlogs have declined, upward price movements have been slowed and production has been cut back in some lines, but inflationary pressures are still present and unemployment remains relatively low nationally. In other words, the well-publicized "lull" in business has been generated by business managers as they have reduced their buying of each other's wares. If income levels are not reduced in the adjustment process, inventory growth will be resumed in time.

There is a tendency to think of rising inventories as an abnormal and unhealthy situation. But this is true only if the increase is proceeding too rapidly. There is no reason why inventories should not continue upward as long as activity is rising, allowing, of course, for gains in efficiency which economize on inventory requirements.

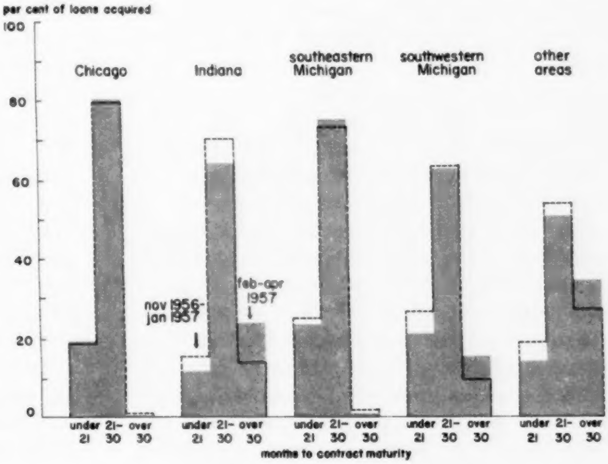
Forecasters, increasingly, are suggesting that a 3-4 per cent annual increase in the economy can be expected over a period of years. If this improvement is steady and the relationship of inventories to sales is to be maintained, a fairly persistent rise in inventory investment of 3 to 4 billion dollars per year can be anticipated. This is about the rate of growth which has occurred in the past two and one-half years in the period of "the great inventory bulge."

Automobile credit: contract maturities ease at banks

Retail deliveries of new cars during the first five months of this year were about 3 per cent lower than a year before. Many observers were confident earlier that 1957 would see marketings well above last year's, their estimates commonly running in the 6 to 6½ million units range. The failure of deliveries to pick up strongly with the onset of the spring selling season, a repetition of last year's pattern, may mean that if the full year is yet to show any improvement over 1956, next year's models, due this fall, will need to be especially alluring to buyers.

Too great expectations often are the cause of "failures" in performance, and that is quite likely a factor in this situation. But other forces are at work; price increases, for example, have undoubtedly held down unit sales performance.

Bank loans on new cars are longer in small Midwest centers than in big Chicago and Detroit markets



The consumer is a changed factor this year, but hardly for the worse: his income is up 5½ to 6 per cent, he views the future with confidence, according to the latest Survey of Consumer Finances, and, even though his stock of hard goods is at a postwar high, he is not unapproachable on style or mechanical innovations.

A change in the credit environment has taken place in the past year. Demands for credit in excess of the supply of savings have made it increasingly difficult for some borrowers to obtain credit at prices they feel able to pay. What evidence is there, then, that this is one of the factors depressing consumer use of credit to buy automobiles?

The aggregate of loans extended to car buyers during the first four months of 1957 was 3 per cent greater than the year before, due in large part to greater average size of loan. In numbers, credit sales have been a consistently smaller fraction of all new automobile sales than they were last year. In fact, there were slightly more cash sales of new cars in the first four months of 1957 than a year earlier.

Interestingly, credit, as measured by the number of new car purchases financed, was just as important a factor in the early 1956 auto market as it was in the first months of the big 1955 season; it was a slump in cash buying that paced the falling off in total sales. In 1957, cash sales have picked up slightly, but credit buying has declined by somewhat more, adding up to the decrease in unit sales.

These over-all changes in credit use do not tell the whole story. Credit use is not only a question of availability and price, but also one of willingness on the part of the borrower. One clue to the problem is what, if anything, is happening to terms. Higher rates, larger down payments and shorter maturities would indicate scarcity of loanable funds, and the converse would indicate the opposite. Unfortunately, data on these factors are not comprehensive enough to warrant firm conclusions.

Through the cooperation of a number of banks in the Seventh District, the Federal Reserve Bank of Chicago has, however, been obtaining information since late last summer on terms in bank financing of car buyers. The sample of reporters is a group of banks that has remained substantially unchanged for the period; the contracts they enter into directly and obtain by purchasing or discounting paper originated by dealers run to an average of something over 8,000 monthly.

Somewhat surprisingly, if we look to the most measurable facet of terms, contract maturities, it appears from the returns for the period from last November through April of this year that there has been some easing, in some District centers, but not in all.

At the reporting Indiana banks, for example, 24 per cent of all auto loans made in February, March and April this year carried maturities in excess of 30 months, while in the three months preceding the ratio was 14 per cent and in the quarter before that, only 8.5 per cent. The short

maturity loans — those extending less than 21 months — were 15.6 per cent of the total in the earlier period, but slightly under 12 per cent for February through April of this year, suggesting a general upward movement through the maturity range. Similarly, in a group of southwestern Michigan cities, long maturities were written into about one contract in 10 during the six months through last January but into one in every 6 or 7 contracts made in February, March and April of this year. Under 21-month maturities featured 21.3 per cent of all contracts in the early period; 26.5 per cent in the later.

In two of the District's most important automobile markets, the greater Chicago area and metropolitan Detroit, relatively long, over 30-month contracts, not only were of negligible importance during the period surveyed, but their ratios showed no tendency to rise. From the limited evidence available, it appears that new car credit, that furnished by bank lenders at any rate, in the District's two biggest centers has adhered to traditionally conservative standards, when measured by the maturity yardstick.

Interestingly, the ratio of credit to total new car sales, on a national basis, typically is lower in the period February through April than at any other time of the year.

It is to be emphasized that the available data on terms in automobile financing relate solely the experience of bank lenders and to a sample of these. Left out of account are the important sales finance companies and several other types of nonbank lenders active in the automobile financing field — credit unions, personal loan companies and dealers who hold their own retail paper. Furthermore, the data cover a limited period, so that it is not possible to determine precisely the purely seasonal influences.

Still, the movement apparent in the proportions of long-term contracts was sharp enough, where it appeared at all, to suggest that in the months covered terms to automobile borrowers in some centers have eased. Notwithstanding that credit generally has been less freely available than had been true earlier, maturities running to more than 30 months considerably enlarged their share of the total.

Too rich for pork?

Is the American economy, with its tremendous effectiveness in providing higher real incomes for its populace, becoming too rich for pork? Has the rise in real income put the proverbial Midwest "mortgage lifter" on the skids? And what is indicated for the future of corn, the crop that has been the backbone of Midwest agriculture ever since wheat moved west to the semi-arid plains?

These are key questions for Corn Belt farmers as hogs are the leading source of farm income in that region. In Illinois, Indiana and Iowa combined, sales of hogs provided one-third of farmers' gross cash receipts from marketings in 1954 and about one-fourth in 1955 and 1956.

But hogs, as produced in the United States, are merely the glove that clothes the hand of corn. Most of the corn grown here is fed to livestock and by far the largest proportion is fed to hogs. Over 40 per cent of all the corn utilized in the United States is consumed by hogs. Therefore, any changes in consumer incomes or tastes as these affect pork are matters of great importance to Corn Belt farmers.

Demand slips

"The demand for pork over the years appears to have decreased relative to the demand for other meats." This cautious conclusion was reached by a University of Illinois professor in

a detailed study of the demand for meat published in 1954. His study indicated also that there apparently had been a decline in the per capita demand for pork quite aside from the effects of incomes or supplies of meats other than pork. The findings of that study, based largely on historical data through 1952, appear to be applicable also to developments in recent years.

By almost any measure that can be applied, pork has been giving ground in the always keen competition with other foods. Per capita output and consumption of pork have not kept pace with other meat; the per cent of consumer disposable income spent for beef has held quite stable in recent years at a level somewhat above that in the 20 years prior to World War II while expenditures for pork have declined quite persistently as a percentage of disposable income; and, finally, prices of cattle and beef have advanced relative to prices of hogs and pork.

	Per capita consumption of total meat relative to pork	Beef steer prices relative to hogs, Chicago	Retail beef price relative to pork
1920-24	2.28	1.03	1.06
1925-29	2.23	1.09	1.10
1930-34	2.20	1.35	1.35
1935-39	2.53	1.13	1.17
1940-44[1]	2.29	1.17	1.24
1945-49[1]	2.47	1.19	1.23
1950-54	2.58	1.46	1.42
1955-56p	2.87	1.49	1.40

[1] Prices subject to wartime control during portions of these periods.

p Preliminary.

A matter of taste

The problem is not one of shrinking consumer purchasing power. Personal income has charted a vigorous and persistent growth. Furthermore, consumers have maintained their expenditures for food at a stable one-fourth of their rising spendable income in the postwar years. Thus, pork, along with other foods, has had available a large and growing potential market. But the competition is tough.

The American consumer has the final word. With bulging purse and confidence in the future, consumers are choosy in their food purchases. Competition for the food dollar was never more intense. Old stand-bys in American diets are up against new faces daily at super market display counters. Equally important are the old stand-bys in new dress. The historic natural advantage of cured meat, for example, has largely disappeared with the widespread adoption of refrigeration and the more recent advent of consumer packages of ready-to-cook meats. This probably has worked to the advantage of meats which are at their best as "fresh" products, especially those which may be quick cooked such as steaks and those processed meats which require little or no cooking before being served. In other words, consumers' growing quest for convenience by-passes many cuts of pork.

Studies by state colleges and others indicate that consumers have developed a strong preference for lean meat. Rising expenditures for beef and the large expansions of production and consumption of beef and poultry reflect, in part, this shift in taste. Furthermore, prices of the fatter cuts of pork have declined over the years relative to prices of the leaner cuts, providing additional evidence of the growing tendency to discriminate against meats which show large amounts of fat.

High-energy diets are losing in popularity due in part to the influence of occupational requirements. A declining proportion of the work force earns its livelihood in "strenuous" outdoor jobs, and even in these jobs the work week has shortened and a great variety of power aids have lightened the work. As a growing proportion of the work force earns its livelihood sitting down — the so-called sedentary jobs — the continued intake of large amounts of high-energy foods tends to expand midriffs, and that has become distinctly unpopular.

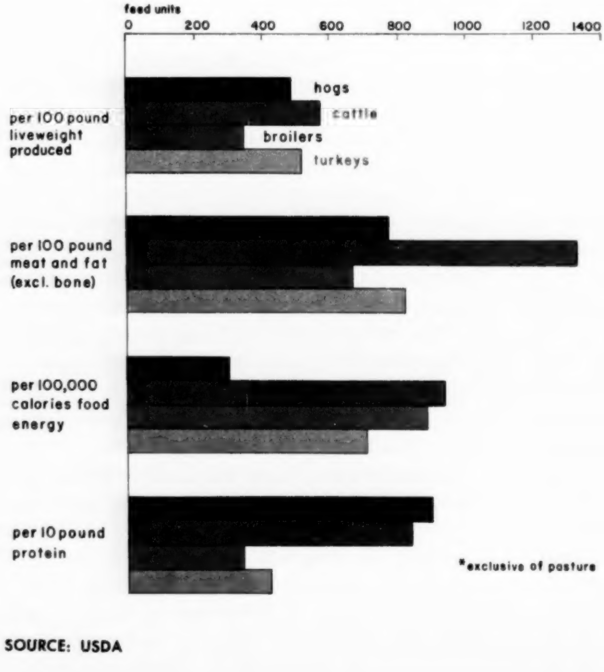
Meat processors have moved to adjust to the situation by trimming more of the fat from certain pork cuts at the packing plants, and promotional programs have been expanded. Also, live hogs are being graded more closely at some markets in an effort to identify and place an appropriate value on animals which

show promise of yielding "meaty" carcasses.

Farmers are attempting to adjust to the change in taste by producing "meat type" hogs, animals designed to provide a higher proportion of lean relative to fat when marketed at proper weights. And this provides real promise. The pig has been redesigned several times since first setting foot on the American continent almost a century before the arrival of the first Mayflower. He can be redesigned again. However, this kind of adjustment usually requires a long time.

The nearly 2½ million farmers who produce hogs, for the most part in very small numbers — even in the central Corn Belt, one-half of the hogs are produced on farms that farrow less than 10 sows per year — can be expected to change their practices only slowly unless provided a clear and positive profit stimulus. And slow moving trends usually do not provide such compelling incentives at any given time.

Feed conversion efficiency, 1949-53*



SOURCE: USDA

Disconcerting also to Corn Belt farmers are beliefs of long standing which suggest that the gradual reweaving of the basic fabric of the American economy is tending to weaken the competitive position of pork, for example, the shift of population from farms — farmers are sometimes said to be predominantly pork eaters — to urban centers and the upgrading of incomes — pork is sometimes characterized as a "poor man's food." A recent nationwide study of meat consumption confirms that pork consumption per capita exceeds that of beef for farmers in the South, but not elsewhere, and that pork provides a smaller share of total meat consumed for the higher income groups. However, consumption of pork per person was about the same at each income level; its share declines as income rises due primarily to the larger amount of beef consumed by the higher income groups. As in previous studies, it was found that high income families consumed much more beef than did those with low incomes and that the differences between income relationships for beef and pork were even more marked than heretofore.

This income-consumption pattern does not bode well for the future of pork in a nation which boasts a capacity for continuously upgrading incomes. At the same time, it is not entirely on the gloomy side. A growing population and a relatively stable per capita consumption of pork would provide for a slow rise in total output of hogs and pork. But it may be overly optimistic to assume that per capita consumption of pork will remain stable, in view of the evidence of a strong preference for "lean," convenient meat items and the growing financial ability of consumers to satisfy their desires.

Efficient production

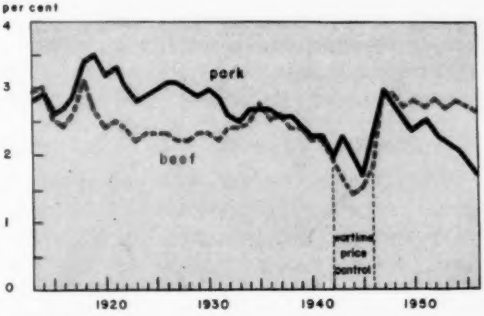
Production costs represent another side of the coin. Pork could

gradually lose its position also if the cost of making it available to consumers were to rise *relative* to the cost of providing other meat. Measured in *absolute* terms, the hog is an efficient converter of feed into edible animal products; only broilers are more efficient as measured in terms of total meat and fat produced per unit of feed, and no other meat animal even approaches the hog if output is measured in terms of calories of edible product. However, as a producer of protein food, lean meat, the hog rates much lower than broilers or turkeys and somewhat lower than cattle (see chart).

Direct measures of changes in the relative costs of producing the different meats are not available. It is clear that progress has been made in producing hogs more efficiently. But progress has been made also in the production of beef cattle and poultry, and possibly at a faster pace. It is not enough that hogs are produced more efficiently today than in years past. To hold their own in the meat economy, production improvements must have progressed as rapidly as for competing products.

One indication of a gain in efficiency is revealed in the annual output of pork per sow. In the past three years the number of sows farrowing on United States farms has been smaller than in the mid-Twenties, but pork output has been nearly 30 per cent larger. Most of the increase has developed from raising a larger number of pigs per litter. Gains have been made also in the efficiency with which feed is converted into pork, and this is believed to be an area which holds promise of further improvement. Finally, the trend toward greater specialization in many sectors of agriculture is evident on hog farms, too. If the production of hogs should shift rapidly toward larger specialized units, as has been the case with chickens and turkeys and appears to be taking place with dairy cattle, the impact on "quality" of product, stability of supply throughout the year and costs conceivably could be quite important. Specialized producers have a strong incentive to adapt their output so as to take full advantage of any price benefits accruing to above average quality or special supply situations.

Per cent of consumer income spent for pork has declined



SOURCE: USDA

However, even more striking advances have been made with cattle. The annual live weight production of beef per beef cow, for example, has increased nearly 50 per cent in the past 30 years, and in recent years great strides have been made in obtaining more efficient conversion of feed into beef. Some of the gain in output of beef per cow has been obtained by feeding to substantially heavier weights. This presents less of a problem with cattle than with hogs as heavier hogs yield fatter cuts of pork to which consumers object. With cattle, the heavier weight appears to be less objectionable.

Poultry, too, have registered substantial gains in efficiency both in terms of the farm production of the live birds and the processing and marketing of the poultry meat. The result: output and per capita consumption have increased rapidly even though prices to growers have remained relatively low. Consumption of poultry meat, estimated at about 29 pounds per capita in 1956, has about doubled since the years just prior to World War II.

The foregoing factors, of course, are not conclusive evidence of relative changes in efficiency. In any event, farm production costs are only a part of the total cost of making meat available to consumers in retail stores. Processing and distribution costs are important also and may not have changed at the same pace for all meats. Most of these factors are not subject

to precise measurement from available data, and certainly no attempt has been made here to measure them exactly. However, one result does appear clear, namely, that pork has been slipping in consumer esteem, and this is tending to shift hogs to a somewhat less commanding position on American farms than in former years.

Implications for corn

While the horizon for pork, and hogs, is somewhat hazy, possibly even cloudy, the prospects for Corn Belt agriculture, in all probability, are not dimmed greatly thereby. The area's pre-eminence in hogs has reflected primarily its endowment with fertile soil and climate especially adapted to the production of corn. And corn is a versatile plant. Its grain provides a highly palatable and nutritious feed for most farm animals, and those animals endowed with a digestive tract capable of "processing" roughage relish the entire plant.

Thus, if American consumers should become "too rich for pork," Corn Belt resources currently used to produce hogs would be partially diverted to other uses, presumably to an expansion of the output of "corn-fed" beef within the area, and to an expansion of grain for sale to other areas where it probably would be used largely as poultry feed. These two outlets for corn are expanding and possibly would expand more rapidly than any prospective decline in demand for pork. However, any reinforcement of the trends toward beef cattle feeding and cash grain could be expected to intensify farmers' efforts to enlarge their farms. Commercial family-operated farms in the Corn Belt on which beef cattle or cash grain predominate are typically much larger than farms on which hogs provide an important source of income. Similarly, the total capital investment per farm is typically much larger for cash grain and beef fattening farms than for hog and dairy farms even though the total labor required often is smaller. Thus, adjustments will be called for, but these can be made, if necessary, as other adjustments have been made before.

Retail trade at midyear

The box score for retail trade through the first half of 1957 shows a record of stable, high-level sales. After chalking up large gains in the fourth quarter of last year, seasonally adjusted retail trade has hung near the December rate.

At this level sales have averaged about 5 per cent over the same period in 1956. Most of the gain, though, came as a result of increased prices, as the consumer price index topped the corresponding period last year by 3 to 4 per cent. Thus the physical volume of goods moving across retail counters in 1957 to date has shown only a small rise.

The consumer's ability to spend remains the brightest spot on the retail trade front. While sales have flattened out, personal income has continued up in recent months at a 5 per cent annual rate. This bodes well for retailers. Yet the impact of changes in personal income on retail trade is moderated by the consumer's willingness to take on new debt. Here the picture is one of mixed trends.

Total instalment credit extended during the January-April period exceeded the same 1956 months by almost 4 per cent. Most of this gain, however, was accounted for by a hefty 10 per cent pickup in personal loans — a type of borrowing not usually associated with the sale of retail goods. In a similar comparison, the volume of credit extended to finance auto buying rose 3 per cent, while extensions for the purchase of other durable goods declined 1 per

cent. This indicates that since the turn of the year consumers have relied less on credit to support their buying of nonautomotive hard goods than in the first half of 1956.

Two disappointments

For both autos and homefurnishings the first half of 1957 has gone into the record books as a period of considerably less than anticipated sales. With the failure of a spring buying surge to materialize, top auto industry spokesmen foresee output for the year running under 6 million cars, about equal to 1956 and considerably below earlier estimates.

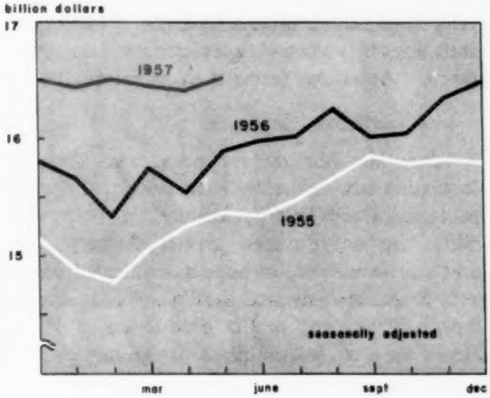
Retail deliveries of new cars were off 3 per cent from a year ago during the January-May period. The 7 per cent rise over 1956 in automotive dealer sales during these same months can be accounted for by the price boost for new cars coincident with the introduction of 1957 models, increased sales of used cars and accessories. New car prices have risen 5 to 10 per cent over 1956; auction prices of used cars have been running more than 10 per cent over a year ago.

Following the strong gains in retail sales of furniture and appliances in 1956, demand for these items has leveled off. Contrary to optimistic industry expectations, the combined increase in retail furniture and appliance sales in the January-May period ran only 1 per cent over a year ago.

Furniture and appliance prices have increased less than the over-all rise in the consumer price index. Yet, even after adjusting for the small homefurnishings price rise, the physical volume of these items sold at retail failed to match the comparable 1956 level. The following table indicates the average January-April change from a year ago in prices of some important consumer categories:

	Per cent increase
Total	3.6
Food	3.9
Private transportation	6.8
Homefurnishings	2.1
Apparel	1.8
Rent	2.1
Medical care	3.7

Total sales remain stable at a high level



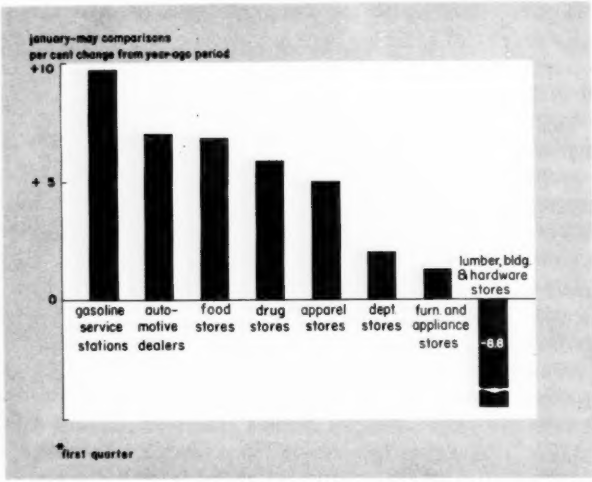
Major producers of refrigerators, washing machines and other appliances have found it necessary to trim output since the beginning of the year as a result of a slump in sales at the manufacturers' level and an earlier build-up in inventories (see article, page 5). In addition, retailers were making vigorous efforts to keep inventories at a minimum during this period. By the end of the first quarter, furniture and appliance store inventories were reduced to only slightly more than two months' sales at the early spring rate. This was the smallest stock-sales ratio recorded by homefurnishings dealers in recent years.

The slowing in furniture and appliance sales has in part been a result of lagging residential construction last year. Morever, through most of the first half of 1957, housing starts were down almost 20 per cent from a year ago. Hardest hit by the decline in home building were sales of lumber, building materials and hardware (see chart).

A marked rise in soft goods

Nondurables sales so far this year have shown much more vigorous gains than the nonautomotive hard goods lines. Durables sales, excluding autos, ran only slightly above a year ago

"Soft" goods retailers turn in strong showing



in the January-May period. On the other hand, sales of soft goods increased more than 5 per cent.

Behind this showing are marked sales gains at food, apparel and drug stores. The food store increase of almost 7 per cent was accounted for in large part by a rise in prices. In contrast, price gains did not figure as importantly in the apparel store performance. Some of the sales increases, of course, have been the result of consumer upgrading — the purchase of better quality, more expensive goods.

With more cars on the road than ever before, gasoline service station business continues to buoy up the nondurable total. This category has grown about 50 per cent in dollar amount over the past five years, compared with a total retail trade gain of about 20 per cent. In fact, sales of gasoline stations currently exceed total sales of department stores by nearly one-third.

The Midwest picture

Over-all, retail trade in the Midwest appears to have approximated the U. S. experience if District department store sales can be taken as a guide. This view is supported also by comparisons of checkbook spending and unemployment in the Midwest and the country as a whole.

Among the largest year-to-year gains turned in at Midwest department stores in the January through April period were sales of children's wear, which scored increases of 8 to 10 per cent. Children's wear business throughout the nation has been reaping the rewards of the early postwar baby boom and, of course, gains in income. In just a few years now, these "babies" should be providing a boost to men's and women's apparel sales.

The radio-TV-record department also ran well into the plus column, though sales were buoyed up principally by phonograph record sales. Major household appliances have registered the sharpest decline relative to a year ago at the District's big stores.

Second-half outlook

When 1957 draws to a close, it will probably be characterized as a good, but not spectacular, year for retailers. Chances are strong for a moderate dollar volume gain over a year ago during the second half, with some likelihood that sales will top 1956 in physical volume, too. Behind the likely sales increase at the retail level are prospects of a continued rise in personal income and some further advance in consumer prices.

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